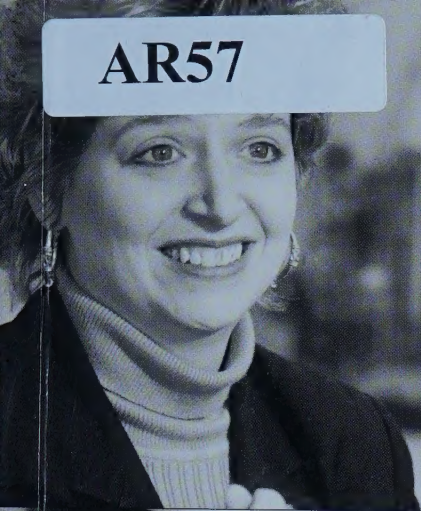
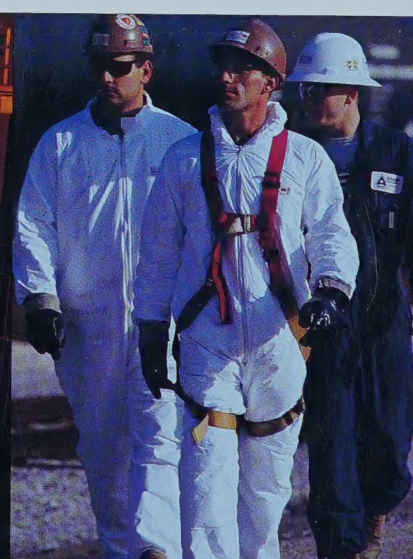
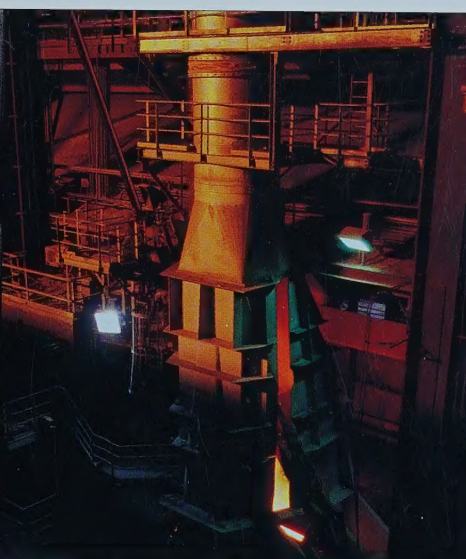
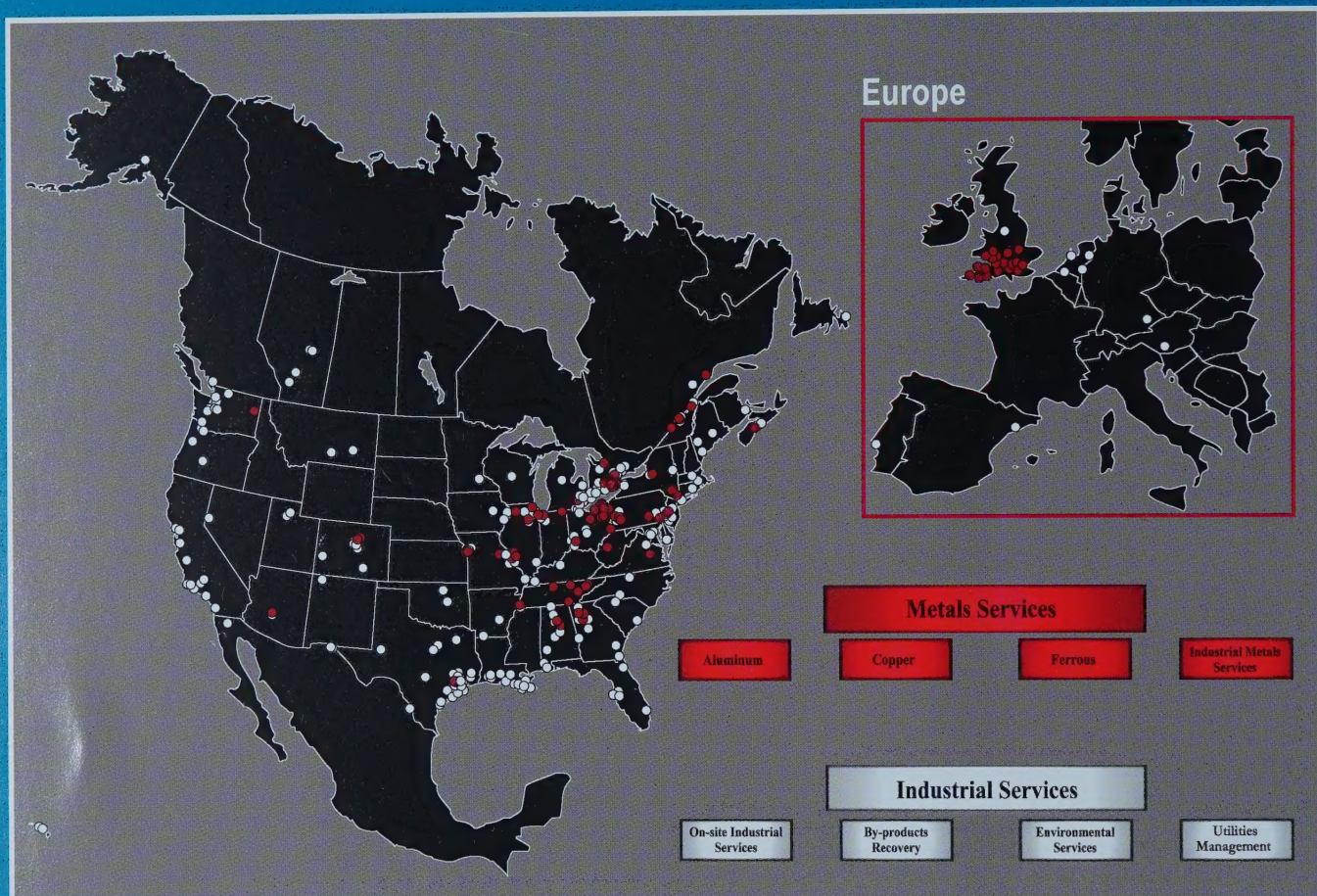


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PHILIP SERVICES CORP. ANNUAL REPORT 1997





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Thanks to our employees, for establishing our place as a leader in key markets and services. Your talent and dedication will continue to support Philip Services' vision and growth in the years to come.

Felix Pardo
President and CEO

Robert Knauss
Chairman

Allen Fracassi
Executive Vice Chairman

Philip Services Corp. is North America's leading provider of integrated metals recovery and industrial services.

Our business grew out of meeting the fundamental needs of our clients to improve the efficiency and profitability of their businesses. Philip's objective is to be the single source provider of integrated metals and industrial services for our clients, allowing them to reduce costs and focus on their core business.

In the \$50 billion metals recovery and industrial services market, Philip is in a strong position to take advantage of numerous opportunities particularly those driven by the growing trend toward outsourcing and vendor reduction. While most companies realize that outsourcing non-core services and processes can bring improved profitability, they need one integrated service provider. We have an unmatched portfolio of services to meet their requirements.

Philip's services cover virtually every aspect of industrial activity, including ferrous processing and mill services, copper and aluminum processing, cleaning, maintenance and turnaround services, design, build and operate capabilities, by-products management and environmental services. We develop and apply innovative technologies and systems to produce consistently high quality raw materials from industrial residuals, and to reduce operating and maintenance costs for our clients.

Our strategic acquisition program played a key role in our 1997 growth. More important however, are the relationships that our 14,000 employees at over 320 locations across North America and Europe have built with more than 50,000 clients. Our goal in 1998 is to continue to integrate these operations thereby enhancing our ability to deliver a broad range of services to increase our clients' competitive advantage.

FINANCIAL HIGHLIGHTS

Financial results from continuing operations after special and non-recurring charges.

<i>(in thousands of US dollars, except share and per share amounts)</i>	<i>Years Ended December 31</i>				
	1997 (Restated)	1996 (Restated)	1995 (Restated)	1994	1993
Revenue	\$ 1,750,930	\$ 532,344	\$ 463,244	\$ 358,784	\$ 131,969
Net earnings (loss)	\$ (126,267)	\$ (19,257)	\$ 1,140	\$ 17,974	\$ 11,048
Cash flow before changes in non-cash working capital	\$ 21,266	\$ (11,992)	\$ 16,375	\$ 42,045	\$ 18,416
Long-term debt, net of current maturities	\$ 966,995	\$ 282,825	\$ 183,635	\$ 167,619	\$ 115,426
Shareholders' equity	\$ 1,216,941	\$ 379,010	\$ 191,109	\$ 181,541	\$ 166,288
Total assets	\$ 2,823,373	\$ 953,761	\$ 731,234	\$ 611,213	\$ 539,789
Common shares outstanding (in thousands)	131,058	69,877	37,454	37,271	35,906
Basic earnings per share	\$ (1.43)	\$ (0.39)	\$ 0.03	\$ 0.50	\$ 0.34
Diluted earnings per share	\$ (1.43)	\$ (0.39)	\$ 0.03	\$ 0.40	\$ 0.30

The following table reflects financial results from continuing operations before the special and non-recurring charges.

<i>(in thousands of US dollars, except share and per share amounts)</i>	<i>Years Ended December 31</i>		
	1997	1996	1995
Revenue	\$ 1,750,930	\$ 532,344	\$ 463,244
Net earnings (loss)	\$ 59,709	\$ 21,078	\$ 17,990
Basic earnings per share	\$ 0.68	\$ 0.42	\$ 0.48
Diluted earnings per share	\$ 0.66	\$ 0.38	\$ 0.38

All dollar amounts in this report are expressed in US currency and in accordance with United States generally accepted accounting principles.

These financial highlights should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements, all as disclosed on Form 10-K/A for the fiscal year ended December 31, 1997, filed by the Company with the Securities and Exchange Commission on May 15, 1998.



METALS SERVICES (locations indicated by red dots ●)

1997 Revenue

\$1.1 billion

Employees: 3,250

Locations: 78

Products and Services	Clients and Suppliers	Key Locations
Ferrous • ferrous and non-ferrous scrap processing and brokerage • steel mill services • steel processing and distribution	• steel mills and foundries • other scrap suppliers • industrial accounts (automotive/stamping plants)	62 locations • US Northeast and Canada • US Southeast • United Kingdom
Aluminum • dross processing • deox production • specification alloy production	• aluminum smelters • aluminum fabricators • aerospace • steel mills • automotive manufacturing	7 locations • US Northeast and Canada
Copper • wire and cable recycling • ingot production • facilities management for regional Bell companies	• wire and cable manufacturers • automotive manufacturing • copper and brass refineries • telecommunications • electronics	9 locations • US Northeast and Canada • US Midwest • US Southwest
Industrial Metals Services • design, build/operate • project engineering • industrial services	• steel mills • other industry sectors	• North America

INDUSTRIAL SERVICES (locations indicated by blue dots ○)

1997 Revenue

\$637 million

Employees: 10,750

Locations: 250

	Products and Services	Clients and Suppliers	Key Locations
On-site Services	• industrial cleaning • tank cleaning • turnaround services • maintenance services • waste management	• refining and petrochemical • automotive manufacturing • chemical • oil and gas • pulp and paper • utilities	• US Northeast and Canada • US Midwest • US Northwest and Southwest • US Southeast & Gulf Coast • Europe
By-products Recovery	• engineered fuels • solvent recovery • inorganics processing • polyurethane recycling • paint overspray recovery	• automotive • paint and coatings • petrochemical • chemical • aviation	• US Northeast and Canada • US Southeast • US Northwest and Southwest • US Gulf Coast
Environmental Services	• decommissioning • remediation • analytical • industrial redevelopment • emergency response • consulting and engineering	• real estate • steel • oil and gas • petrochemical & refining • chemical • paint and coatings • automotive manufacturing • utilities	• US Northeast and Canada • US Southeast • US Northwest and Southwest • US Gulf Coast
Utilities Management	• water and wastewater treatment • design, build and operate • infrastructure repair	• municipal utilities • industrial utilities	• US Southeast and Canada • US Gulf Coast

1997 - YEAR IN REVIEW

January

<i>Aquisition</i>	Allied Metals	• one of the largest ferrous and non-ferrous processing and mill service companies in the UK • \$120 million in revenue • establishes base for European expansion
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February

<i>Aquisitions</i>	RMF Global	• industrial maintenance and mechanical services • \$62 million in revenue
	Conversion and Warrenton Resources	• only manufacturer of fire refined copper ingot in North America • copper recycling and ingot production • \$100 million in revenue
<i>Agreement</i>	Southwestern Bell	• manage Dallas, Texas materials recycling centre

May

<i>Acquisition</i>	Reynolds Bellwood facility	• aluminum recycling and deox production • \$85 million in revenue • Brings deox market share to over 50% in North America
<i>Organization</i>	Company name changed to Philip Services Corp. to reflect the Company's focus on metals recovery and industrial services	
<i>Agreement</i>	City of Seattle	• CDM Philip (a JV including Philip Utilities Management Corp) signs contract with the City of Seattle to design, build and operate a water and wastewater treatment plant.

July

<i>Mergers</i>	Allwaste	• leading North American industrial services company with 130 locations and 4000 employees • expands services to refining, utilities and petrochemical industries • \$382 million in revenue
	Serv-Tech	• industrial and environmental services company with 20 locations primarily in the Gulf Coast • \$140 million in revenue
<i>Aquisition</i>	Roth Brothers Smelting	• specification alloy production • \$90 million in revenue

August

<i>Acquisitions</i>	BM Metals	• ferrous processing companies in the UK
	E. Pearse & Co.	• \$11 million in revenue
	Intermetco	• Canada's largest ferrous metal processing company • \$140 million in revenue
<i>Finance</i>	\$1.5 billion revolving credit facility established	

September

<i>Facilities</i>	Polyurethane Recycling	• in alliance with BASF, first rigid polyurethane recycling facility in North America opened to service the automotive industry
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October

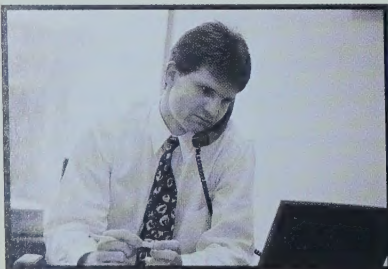
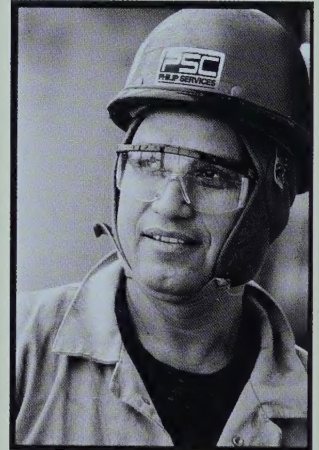
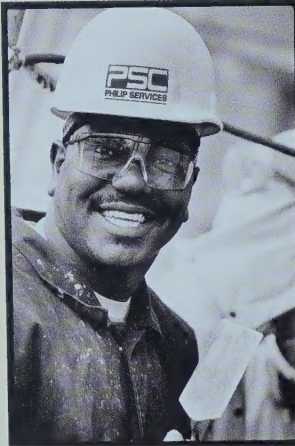
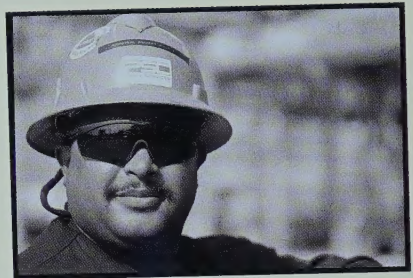
<i>Agreements</i>	Industrial Redevelopment	• strategic alliance agreements with Royal LePage and Cushman & Wakefield to provide comprehensive industrial redevelopment services across North America
	NGC Corporation	• co-sourcing agreement with NGC (one of the world's largest energy marketers) to provide integrated energy and on-site utility management services
<i>Acquisitions</i>	Luria Brothers	• one of the largest ferrous processors and brokers of ferrous scrap in the USA • founded by Hirsch Luria in 1889 in Reading, PA
	Steiner-Liff Metals	• ferrous processor expands Philip's geographic base into the US Southeast • founded by Morris Steiner in 1914 in Nashville, TN
	Southern Foundry Supply	• ferrous scrap processor provides additional capacity and market presence in the US Southeast • founded by Julius Chazen in 1953 in Chattanooga, TN

November

<i>Finance</i>	Stock Issue	• 23 million common shares issued • \$362 million in net proceeds used to pay down debt
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December

<i>Agreement</i>	Conoco	• 30-year contract for water and wastewater treatment at Conoco's Lake Charles, Louisiana refinery is the largest industrial water project in USA
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To Our Shareholders:

Inventory discrepancies identified in our copper operations during the third week in January 1998 started a shocking series of events that have caused damage to our Company. Major acquisitions and advances in 1997, which should have made this the most successful year in our history, have been overshadowed by the revelations that the Company has in fact been victimized by actions within one of its divisions.

The initial discrepancies were discovered during the time of the routine end of year inventory of copper. This led to the revelation of extremely large trading and operating losses over the past three years. The Company has moved vigorously to determine the extent of the damage, and has hired independent legal counsel to conduct an investigation.

The end result has been the need to restate our financial statements for the past three years. We recorded total unexpected pre-tax charges of \$203.5 million (\$126.2 million after tax) from trading losses, incorrect recording of copper transactions, costing errors, understatement of liabilities, and adjustments to certain balance sheet accounts. As a result, the Company reported net earnings of \$3.2 million in 1995, a loss of \$20.0 million in 1996 and a loss of \$126.3 million in 1997.

We believe that we have at last put this situation behind us. The Company is proceeding with its investigation, and will hold those responsible fully accountable. We understand however, that when events of this type happen there is a need to rebuild confidence with customers, employees and shareholders. To this end, we are implementing a number of operational and management changes based on a five point plan targeted at reducing costs and debt, improving systems and controls, and simplifying our management structure.

Felix Pardo has been appointed President and Chief Executive Officer, and is responsible for managing the Company's operations. He provides a depth of knowledge of the Company, its vision and strategy through his four years on the Board of Directors. He also brings a highly disciplined management focus and significant experience in operation improvement. Since 1977 Mr. Pardo has served as President and CEO of a number of companies and most recently was President and CEO of Ruhr American Coal. He has had experience with both turnaround and rapid growth companies. Prior to 1977 he served as a senior consultant at Arthur D. Little, where he specialized in operations improvement, strategic planning and organization and systems design and implementation.

Allen Fracassi, Philip's co-founder and key strategic visionary, has been appointed Executive Vice Chairman of the Company. In this capacity, he will work closely with the Board of Directors, the senior management team, and other constituents to maintain the strategic focus of the Company.

The Board of Directors is also changing, reflecting our desire to expand the number of independent directors, and to bring fresh ideas and experience to guide our growth. Howard Beck, who made substantial contributions to the Board of Directors during the Company's growth, has retired. The new Chairman, Robert Knauss, who joined the Board with Philip's acquisition of Allwaste Inc., brings significant legal, business and academic experience to this position. Mr. Knauss is President and CEO of Baltic International USA Inc. an aviation investment company, and is a director of the Mexico Fund, Inc., and Equus II, Inc. both New York Stock Exchange companies. He is a former Dean at the University of Houston Law School and Vanderbilt Law School.

We also announced the retirement of Marvin Boughton, Chief Financial Officer, and expect to appoint a replacement by the end of June. In addition, Philip Fracassi, a co-founder of the Company and former President of the Metals Services Group has resigned. The senior executives in the Metals Services Group now report directly to Mr. Pardo. John Woodcroft who brings extensive experience as chair of the integration team involving the Allwaste and Serv-Tech mergers, is President of our Industrial Services Group. Robert Chiste, Executive Vice President and former CEO of Allwaste, Inc. has also resigned.

1998: Growth through Integration and Consolidation

We have created an unparalleled platform of assets and services to serve a market that is increasingly outsourcing non-core services. Our goal is to be first or second in every market in which we operate. In 1998 we have entered a new phase in order to realize the collective potential of our Company with a focus on integration, cost reductions, improved efficiencies and supporting our cross-selling objectives.

The Company is organized into two operating divisions: Metals Services, including our ferrous, copper and aluminum operations, as well as industrial metals services; and Industrial Services, including industrial on-site services, by-products recovery, environmental services and utilities management. Each division is lead by management with strong track records in their respective fields, most of whom came to Philip through our acquisition program. We believe this structure gives Philip a more focused and cohesive approach to the marketplace.

Our task is to proceed as quickly as possible to enable the Company and its shareholders, employees, suppliers and customers to realize fully the benefits of the underlying strengths and values of our business. Realizing this goal is based on the execution of a five-point program:

- To reduce costs and improve profits by cutting sales, general and administrative expenses, enhancing our operating efficiencies and improving procurement practices;
- To increase profitability through disposal of our non-core, low margin copper businesses and reorganization of our by-products management operation;
- To reduce and restructure the Company's debt, and identify various options regarding Philip's capital structure, including generating cash through the sale of non-core assets;

- To decentralize decision making and establish a simplified management and operating structure, and;
- To strengthen internal systems and controls, including the establishment of a common accounting platform and better management information systems.

We are also establishing Economic Value Added, or EVA, a widely recognized management system, to build shareholder value into our decision making process. EVA will support our objective to increase sustainable cash flow by optimizing our assets, and will establish a consistent financial discipline across our Company. EVA will be fully established across our Industrial Services Group by the end of 1998.

Our Competitive Advantage

As a leading consolidator in the metals recovery and industrial services sectors, we are now in a position to define the criteria for successfully servicing these markets. For Philip, this means becoming the single source for a range of industrial outsourcing services, thereby responding to our customer's needs to reduce vendors and outsource responsibility for their non-core services and operations to outside experts. With our strong geographic base and service mix we have a competitive advantage over regional players. We will continue to develop strong partnerships with our clients based on a long-term, multi-service approach and provide comprehensive solutions that increase their operating efficiencies and competitive advantage.

Philip Services has in place all of the elements to be the dominant leader in the integrated services industry described in this report. The basic assets and operations are in excellent shape. We have talented and loyal employees. The vision of the founders of this Company is still sound.

We are also a resilient company with an entrepreneurial spirit. We have learned some powerful lessons, and from those lessons, we are putting in place management systems and policies that will benefit our shareholders, employees, customers, and communities in which we operate, and deliver on the promise of this remarkable company.



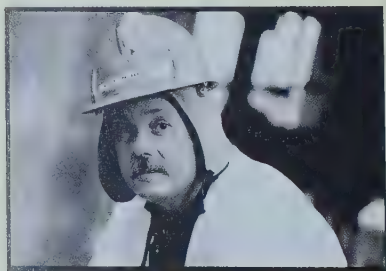
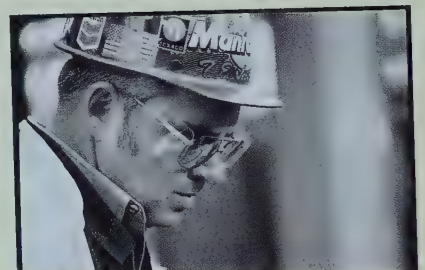
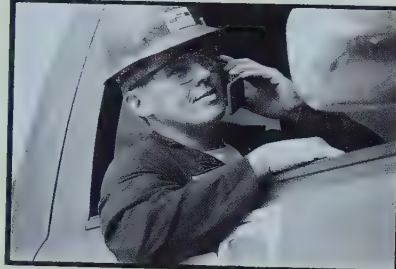
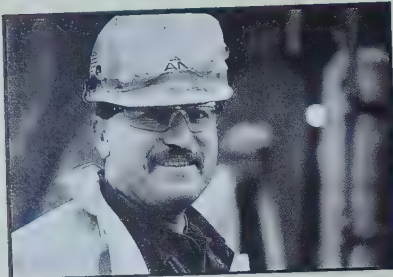
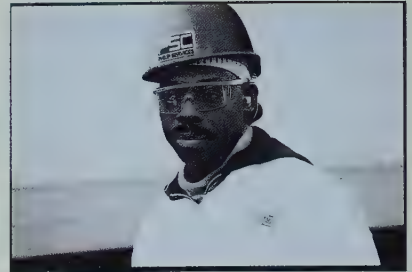
Felix Pardo
President and CEO



Robert Knauss
Chairman



Allen Fracassi
Executive Vice Chairman



METALS SERVICES AT A GLANCE

Revenue for 1997: \$1.1 billion Employees: 3250 Locations: 78 locations Key Businesses: Ferrous, copper and aluminum

Ferrous	Copper	Aluminum	Industrial Metals Services	Europe
ferrous scrap processing/brokerage	- secondary refining - wire/cable processing	- deoxidizing products - specification alloy production	- design build/operate - project engineering - industrial services	- ferrous and non-ferrous scrap processing - steel mill services
- steel mill services - steel processing/distribution	facilities management	dross processing		



The Metals Services Group processes, recycles and brokers three primary industrial metals, steel, copper and aluminum, and provides related industrial and mill services.

By the end of the year, the Metals Services Group had more than tripled in size and significantly increased its ability to provide a full-range of metal processing, fabrication and industrial services. Philip Services is now North America's leading ferrous scrap processor, the largest producer of aluminum deoxidizing products, the largest processor of wire and cable scrap and the second largest producer of secondary aluminum alloys.

In 1997, the Metals Services Group significantly expanded its business with a series of strategic acquisitions. The acquisition of Luria Brothers, Intermetco, Steiner-Liff Metals and Southern Foundry Supply increased the Company's ferrous processing capacity from 2 million tons to over 10 million tons.

Philip also acquired four non-ferrous facilities which expanded our capacity to convert aluminum scrap into deoxidizing agents for the steel industry and to produce copper ingots from scrap for the brass and copper industry. The acquisition of Roth Brothers of Syracuse, New York and the Alcan alloys plant in Guelph, Ontario doubled our secondary aluminum processing capacity and strengthened Philip's supply position to the automotive industry. The acquisition of the Warrenton Refinery in Missouri allowed Philip to vertically integrate its wire and cable chopping with secondary copper refining capabilities.

Philip also acquired D&L Engineering, a leading provider of engineering and project management services to the steel industry. Dominick DeSalvo, co-founder of D&L, now heads Philip's Industrial Metals Services operations which provides the bridge to introduce our extensive industrial services capabilities to our metals clients.



A hot metal ladle pouring molten iron into a basic oxygen furnace at the Bethlehem Steel, Burns Harbor, Indiana plant.

Burn's Harbor, Bethlehem's flagship mill, produces 5 million tons of steel a year. Luria Brothers, a recent Philip acquisition has been providing on-site scrap management services at the mill since 1964. Philip delivers 1.2 million tons of scrap annually to the mill's furnaces. Over one hundred Philip employees are on site to stockpile, manage inventory, process scrap steel, and blend charges for delivery to the furnace. Scrap movement is so extensive that Philip has its own railroad with six miles of track and two engines to service the 42-acre site. Philip also maintains Bethlehem's slab hauling equipment and markets secondary plate produced by the mill. It is an around-the-clock operation dictated by the mill's constant requirement for just-in-time scrap steel.



Philip is North America's largest ferrous scrap company, processing and brokering approximately 15 million tons annually.

Philip provides services to major steel mills in North America.



Jack Litzenberg, Philip's Yard Manager at Bethlehem Steel's Burns Harbor facility, and Tom Perry, Assistant Superintendent, Steelmaking, Bethlehem Steel.

Ferrous Processing

Ferrous acquisitions transformed the Metals Services Group in 1997 and the integration of these businesses will be a key focus in 1998.

North American steel mills produce over 100 million tons of steel annually, of which electric arc furnaces account for over 44 percent. Although scrap comprises approximately 25 percent of the feedstock for integrated steel production, electric arc furnaces rely almost exclusively on scrap as their raw material feed.

The Metals Services Group collects industrial and secondary grades of scrap steel, processes it to mill specifications and delivers it to the mills. Philip manages over 15 million tons of scrap a year through the largest processing and scrap brokerage network in North America.

Clearly, the drivers of this business segment are processing efficiency, inventory management and scrap buying capabilities, and extensive market coverage to achieve economies of scale and competitive advantage.

Because of the increasing demand for scrap steel and the steel industry's need for a consistent and reliable source of supply, the scrap industry is consolidating rapidly. The Metals Services Group is leading that process, acquiring steel scrap processors in the primary steel-producing regions – Southern Ontario, the Ohio Valley, the US Midwest and most recently, in the US Southeast. A majority of new mini-mills in the past five years have located in the US Southeast, as have a majority of new automotive assembly plants, which has created a prime market for steel and a significant source of industrial scrap.

In 1997, the Metals Services Group acquired five of the largest scrap processors in North America with combined annual revenue in excess of \$750 million. Each of the acquisitions are well-established businesses – some with over 100 years of service – and have a strong reputation for customer service.

With a significant ferrous processing and brokerage business, Philip is expanding its relationships with the major steel producers as a full-service provider. On-site scrap management at the steel mills, strengthened by the Luria Brothers acquisition, is now a significant part of our operations.



A Philip employee monitoring the galvanized steel slitting line at Coilpac.

As part of the Intermetco acquisition, Philip acquired Coilpac, which processes steel under contract for Stelco, Canada's largest steel producer.

The computerized slitting line cuts the coils to specification for Stelco's clients in the automotive industry.

The mill concentrates on continuous high-speed production, while Philip provides the outsourcing service to satisfy the automotive manufacturer's stringent quality standards for material. Reflecting the upswing in the demand for automobiles,

Coilpac processed more steel in March 1998 than in any month since the plant started operation in 1991.

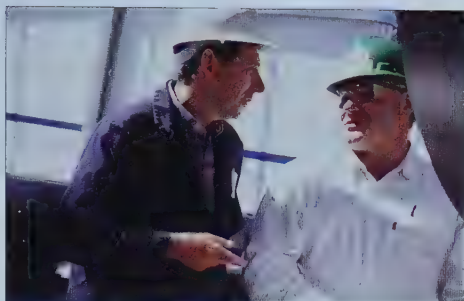


Philip's newly constructed mega-shredder processes automobiles into metallic fragments.

In the United States, approximately 10 million vehicles are shredded each year to recover scrap for reuse in steel production.

Philip has one of the largest auto shredders in North America, which requires an ongoing commitment to technology and quality control.

The 6,000 horsepower shredding system has an annual capacity of 750,000 tons, and can reduce a two-ton automobile to metallic fragments in less than a minute. The shredder produces high quality shredded ferrous scrap that is a primary feedstock for steel mills and closes the recycling loop.



*Ross Ingrassia, Operations Manager, Coilpac and
Don Wood, Stelco's Metallurgical Quality Assurance
Supervisor.*



Steel Scrap Processing

To meet a steel mill's specific and detailed metallurgical and physical requirements, scrap processors now use an array of sophisticated tools. Computer models for creating a least cost-higher value charge material provide significant value to our customers by improving their purchasing programs and utilization of their own internally generated scrap.

Consistency of the physical dimensions and density of the scrap is also a key component of the least cost-higher value charge material. To support this, Philip has pioneered processes such as "nuggetizing" and "clip press" to add value for our scrap generating customers and steel mill end users. Our efforts have been recognized with quality awards for excellence from a number of our key clients.

Steel Brokerage

To meet contractual obligations and its clients' requirements for a consistent supply of raw materials, Philip augments its internal ferrous processing capabilities with the purchase and brokerage of scrap from outside providers. Philip brokers over five million tons of ferrous scrap annually, and is also frequently used by its mill customers as a lead broker and in some cases, has exclusive arrangements for providing the total supply of melt material to the mill.

Philip Services (Europe)

In 1997, Philip announced its first expansion in Europe with the acquisition of Allied Metals Limited in the United Kingdom. During the year, Philip expanded its network in the United Kingdom from thirteen facilities to twenty, including five shredders and a heavy media separation facility. The expansion of the collection network was designed to strengthen Philip's position in the southwest of England and in Wales where the Company is now the dominant metal processing company.

In the United Kingdom, Philip processes over 750,000 tons of ferrous scrap and 100 million pounds of non-ferrous scrap annually. Almost half of the shredded ferrous scrap is exported internationally from Philip's Avonmouth facility.

Philip secured its first mill services contract in Europe in 1997 with a five year contract with ASW Holdings PLC (ASW). Under the contract, Philip provides a number of services at the ASW Cardiff mill and recovers metal at a slag reclamation facility acquired by Philip.

In 1997, Philip entered into agreements to acquire the exclusive North American rights to a new technology for electric arc furnace (EAF) dust recycling developed by Arc Dust Processing Limited (ADPL). Additionally, Philip acquired a third of ADPL, which owns the world-wide rights to the technology, which uses two rotary kilns to selectively recover the various components of EAF dust, including zinc concentrate, for re-use. The first facility, located in Cardiff, Wales, is operated for ASW by Philip.



A Philip employee tending the ladle at Philip's refining plant in Warrenton, Missouri.

Molten copper at a temperature of 2150°F flows into the molds in the casting wheel.

Philip is the only producer of fire refined copper ingot in North America. The Warrenton plant refines industrial scrap copper, removing the impurities and deoxidizing the hot metal before casting it into ingots and slabs that are 99.95 percent pure. The refined copper, reclaimed from Philip's wire and cable chopping operations, supplies brass mills and foundries with raw material. Just as the steel industry uses Philip's aluminum deox made from scrap aluminum in steel manufacturing, the aluminum industry also uses Philip's refined copper for alloying. Due to the successful integration of the plant with Philip's wire and cable chopping operations, the refinery has gone from a five-days per week to a seven-days per week production schedule.



Copper ingots, refined from copper scrap, provide a feedstock for copper and brass mills. This process represents Philip's value added approach to our metals business.



Philip is expanding into emerging markets, including the resale of metals and telecommunications equipment recovered through our materials recycling centres.

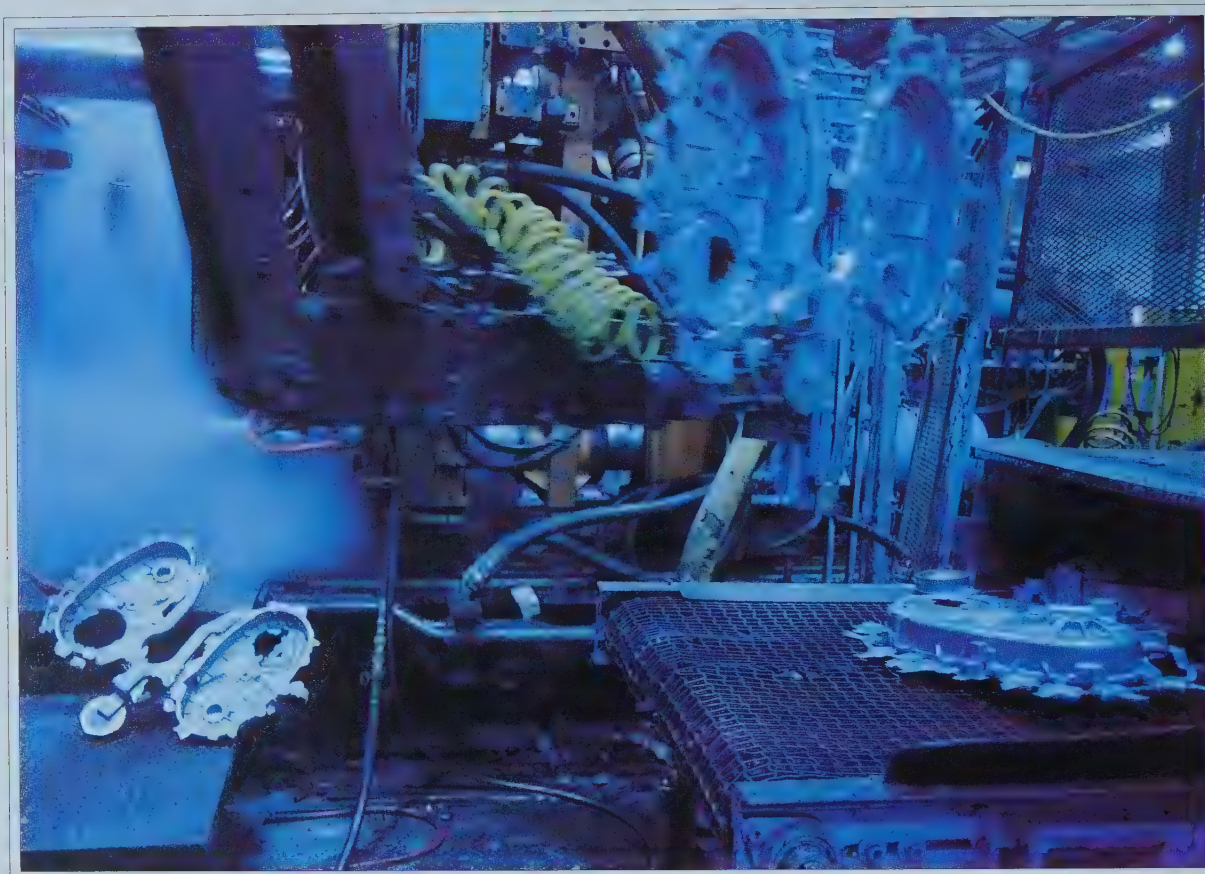
Copper Operations

The Metals Services Group processes approximately 500 million pounds of copper annually through two distinct copper processing services – scrap management and recovery – primarily through wire and cable processing, and secondary manufacturing of ingots.

The largest business of its type in North America, Philip's wire and cable operations separate and process the metals recovered from wire and cable scrap for reuse by copper and brass refiners.

Since wire and cable processing is a relatively mature business, the Metals Services Group has developed new business through its strategic partnerships with telecommunications companies. Philip completed the acquisition of a materials recycling facility from Northern Telecom, which provides us with a substantial new scrap vendor, Bell Canada, and entry into the telecommunications equipment resale business in association with Nortel. Philip also provides on-site scrap management services for four regional telecommunication companies in the United States.

In addition, the Metals Services Group extended its downstream copper processing capabilities in 1997 with the acquisition of Warrenton Resources. Warrenton refines copper scrap into prime ingots and is the only producer of fire-refined copper ingots in North America. Through process improvements, we plan to expand the capacity of our secondary copper refinery by the end of 1998. Today, approximately 40% of the material processed by the Warrenton refinery comes from other Philip wire and cable chopping operations. Through the Warrenton operation, wire and cable scrap processing is vertically integrated to include collection, processing and refining. This allows Philip to maximize the value of the copper it recovers.



Casting aluminum alloys at Chrysler's Etobicoke, Ontario plant.

Chrysler's Etobicoke plant produces three-quarters of the company's van pistons as well as numerous diecast engine parts.

Philip's operations have a long-standing relationship with the automobile plant. In 1979, the Guelph, Ontario

alloy facility was built specifically to supply Chrysler with aluminum produced from recovered scrap.

Flat bed trucks with large crucibles that keep the alloys molten for up to nine hours supply hot metal directly to the Etobicoke plant.

The benefits of using hot metal are considerable, including improved furnace utilization and reduced energy costs and melt loss.

The relationship is based on the exceptional cooperation between the two plants in scheduling and co-ordinating shipments.

Philip supplies the facility with up to 16,000 tons of secondary aluminum ingots and hot metal annually and also recycles the plant's aluminum dross by-products.



Philip is a leading producer of specification aluminum alloys, either in the form of ingot or hot metal, for the North American automotive industry.



Simon Kwok, Plant Metallurgist, Chrysler Canada Limited and Mark Gray, Plant Manager, Philip's Alloy Plant in Guelph, Ontario.

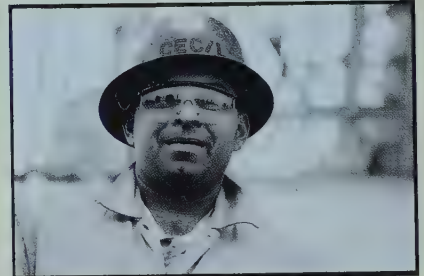
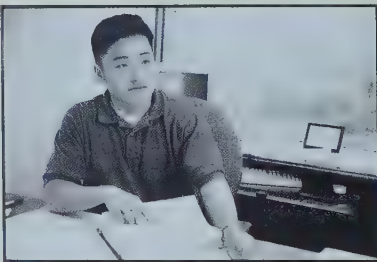
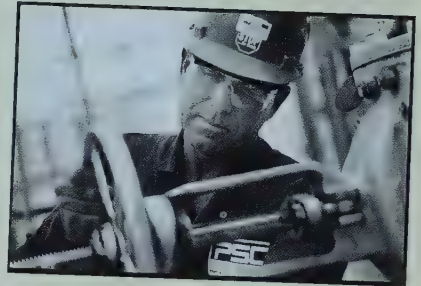
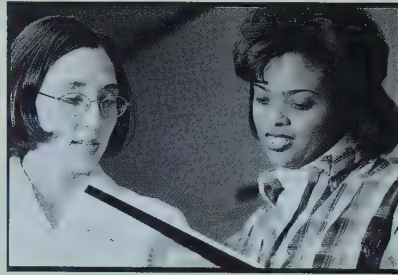
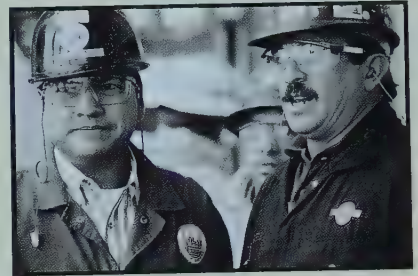
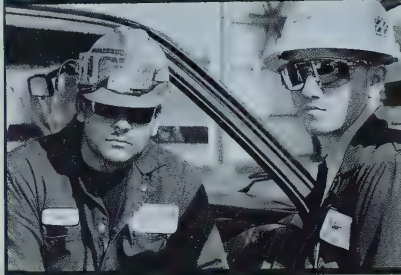
Aluminum Operations

The Metals Services Group processes more than 600 million pounds of aluminum material annually. It recovers aluminum from aluminum dross, is the largest manufacturer of aluminum deoxidizing products in North America and produces secondary aluminum alloys from scrap for automotive and other casting uses.

Aluminum dross processing recovers aluminum from dross, a by-product of aluminum refining. Our customers include most of the primary aluminum producers, including Alcan, Reynolds, Alumax and Norsk-Hydro. Philip is the leading processor of aluminum dross in Canada, processing nearly 50 million pounds annually on a tolling, or fee-for-service basis. In 1997, Philip expanded its dross processing capabilities by developing a process to manufacture calcium aluminate from by-products of the recovery operation. This product complements Philip's range of services to the steel industry, which uses calcium aluminate to separate impurities in molten steel.

Similarly, our aluminum operations produce deoxidizing products ("deox"), another essential component of steel manufacturing, from scrap aluminum. Aluminum deox, when added to molten steel, reduces the oxygen content and the potential for defects in cast products. Driving Philip's aluminum deox business is the shift by its steel industry clients toward longer-term supply arrangements to mitigate their exposure to commodity price fluctuations. Philip provides deoxidizing products to over 30 major steel mills throughout North America, thus providing another essential product to the steel industry. Our deox plant in Ohio, has an annual capacity of 90 million pounds. The 1997 acquisition of an aluminum deox manufacturing facility in Bellwood, Virginia, which has a capacity of approximately 150 million pounds per year, made Philip the largest deox producer in North America.

The use of aluminum in automobiles is increasing rapidly in North America, and has reached nearly 4 billion pounds a year. Automakers use cast aluminum in engines, transmissions, and other components for weight reduction, increased performance and fuel economy. Philip's aluminum alloys business has a strong market position serving the automotive sector in the Great Lakes area. Our Syracuse, New York, plant has an annual capacity of 200 million pounds, and our second plant in Guelph, Ontario, has a 150-million pound annual capacity. Philip also provides molten aluminum alloys to its clients, primarily automotive parts manufacturers, providing this essential raw material on a just-in-time basis.



INDUSTRIAL SERVICES AT A GLANCE

Revenue for 1997: \$637 million Employees: 10,750 Locations: 250 Key Businesses: industrial services

On-site Industrial Services	By-products Management	Environmental Services	Utilities Management
• tank cleaning	• engineered fuels	• analytical services	• design, build and operate
• industrial cleaning	• solvent recovery	• decommissioning/remediation	• industrial wastewater treatment
• maintenance services	• organics and inorganics	• industrial redevelopment	• municipal water and wastewater treatment
• turnaround services	• polyurethane recycling	• consulting and engineering	
	• paint overspray recovery	• emergency response	• infrastructure repair

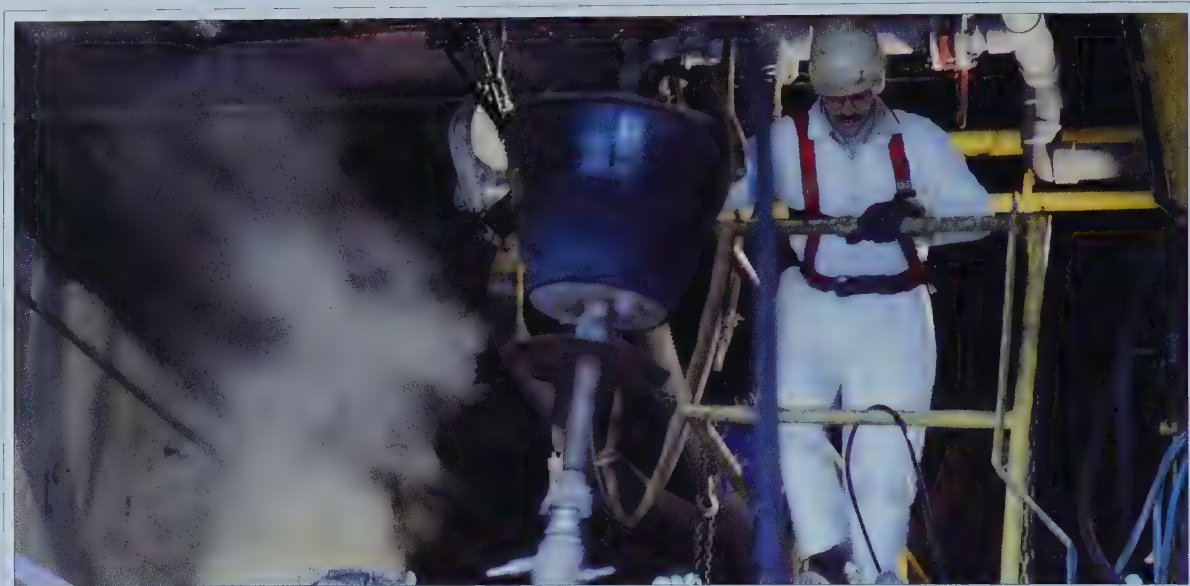


The Industrial Services Group (ISG), provides a broad range of industrial outsourcing services, from on-site cleaning and maintenance to by-product management and environmental services.

The Group's business is driven by the increasing focus of its industrial clients on core business, leading to the outsourcing of non-core, non-revenue generating activities. In addition, clients are seeking to reduce vendors and purchase industrial services from total service providers in order to reduce administrative costs and increase the quality and accountability of services they receive.

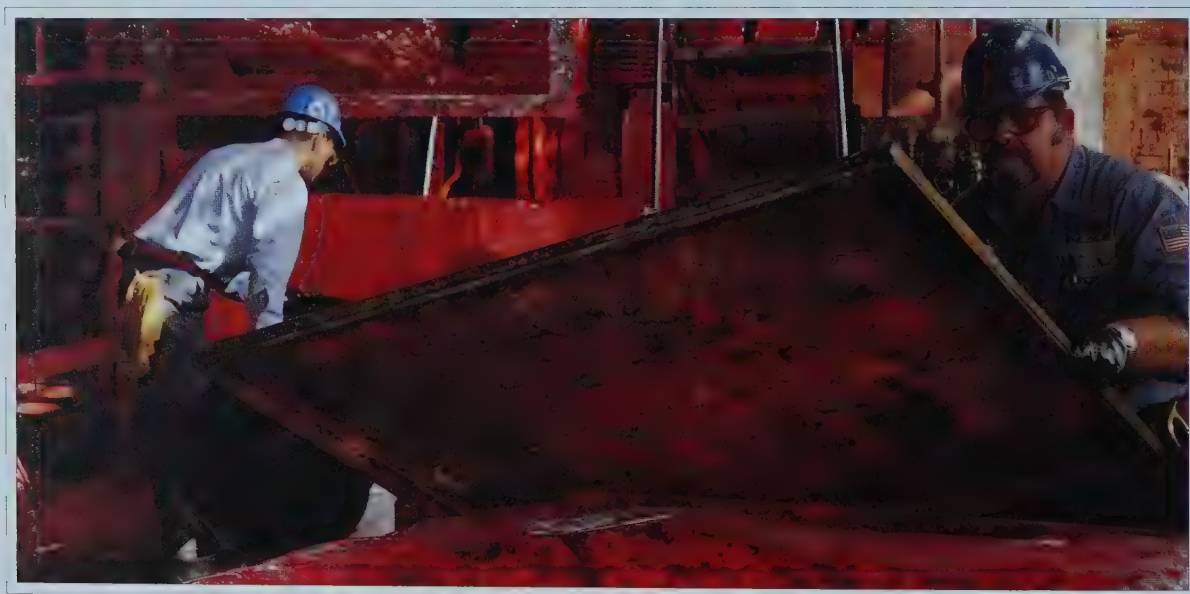
As a cornerstone of its strategic acquisition program, Philip established the goal of becoming the premier provider of industrial services in North America. The addition of Allwaste and Serv-Tech transformed Philip from a niche supplier of environmental and by-product recovery services into an integrated industrial services supplier. When Philip announced its merger with Allwaste and Serv-Tech in March 1997, it was called 'the perfect fit.' A year later, we've been proven right. Philip's historical strengths centered on by-product recovery and environmental management. Allwaste brought significant strengths in industrial outsourcing services, while Serv-Tech added specialty industrial services and turnaround expertise. The merger created North America's largest integrated industrial services company providing a broad range of services to a vastly expanded client base.

The Industrial Services Group's portfolio of over 75 different service lines covers virtually every industrial activity from industrial maintenance of off-shore oil rigs to the design, construction and operation of municipal utilities. Philip is a market leader in most of the regions it serves, with a heavy concentration of facilities in the US Gulf Coast, the US West Coast, US Northeast, and Canada. With a broad range of service offerings and geographic regions, Philip has an unmatched ability to satisfy client needs.



Cleaning rail cars at Philip's Niagara Falls, New York facility – the only rail car cleaning facility approved by DuPont for removing metallic sodium.

Only one company in the Western Hemisphere makes metallic sodium – DuPont. And only one company has DuPont's approval for cleaning its rail cars – Philip Services. Because metallic sodium is highly reactive, dedicated expertise is needed. Outsourcing provides that expertise. Philip's Niagara Falls facility has been cleaning DuPont's cars for the last 14 years. Inside a climate controlled bay, employees work two shifts a day for up to three weeks to clean a car, before returning the recovered material to DuPont. The facility also cleans trailers, totes and drums, as well as up to 300 rail cars a month that contain various types of chemicals. With safety paramount, there have been no reportable safety incidents in the last two years.



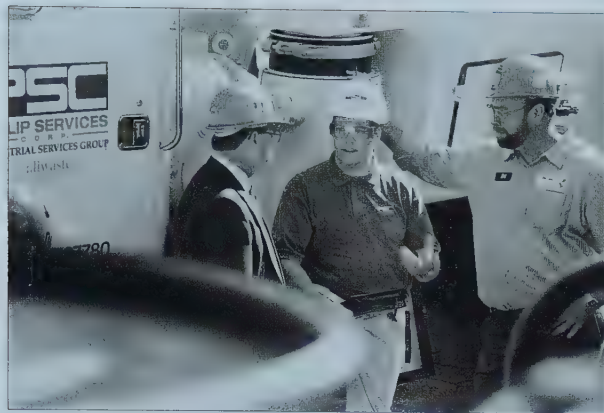
Manufacturing red pigment at Hilton Davis' Cincinnati plant.

Philip Services employees provide an exclusive on-site environmental management service at the plant.

With over 650 pigments, dyes, food colours and organic chemicals manufactured at their Cincinnati plant, environmental management is a complex and expensive process for Hilton Davis. An internal study showed, environmental costs were running as high as 15% of variable cost.

Just over a year ago, Hilton Davis established new objectives, which included building a long-term relationship with a single supplier of on-site services, to manage its by-product program and reduce its waste management costs and liabilities.

Philip now manages all aspects of Hilton Davis' environmental program. Future plans include increased solvent recovery and reuse, water treatment, and recovery of other by-product streams. Through a fundamental shift in its supplier relationships, the Hilton Davis, Cincinnati plant has achieved cost reductions, increased operating efficiency and is meeting its environmental objectives.



Greg Tankersley, Co-director of Sales, Midwest Region, ISG, and Bill Wiegle, Director of Environmental Affairs, Hilton Davis



Hilton Davis' Cincinnati plant decided to partner with a single vendor, Philip, to reduce total waste management costs and future environmental liability. The program now involves everything from recycling to total on-site waste management.

Key Services:

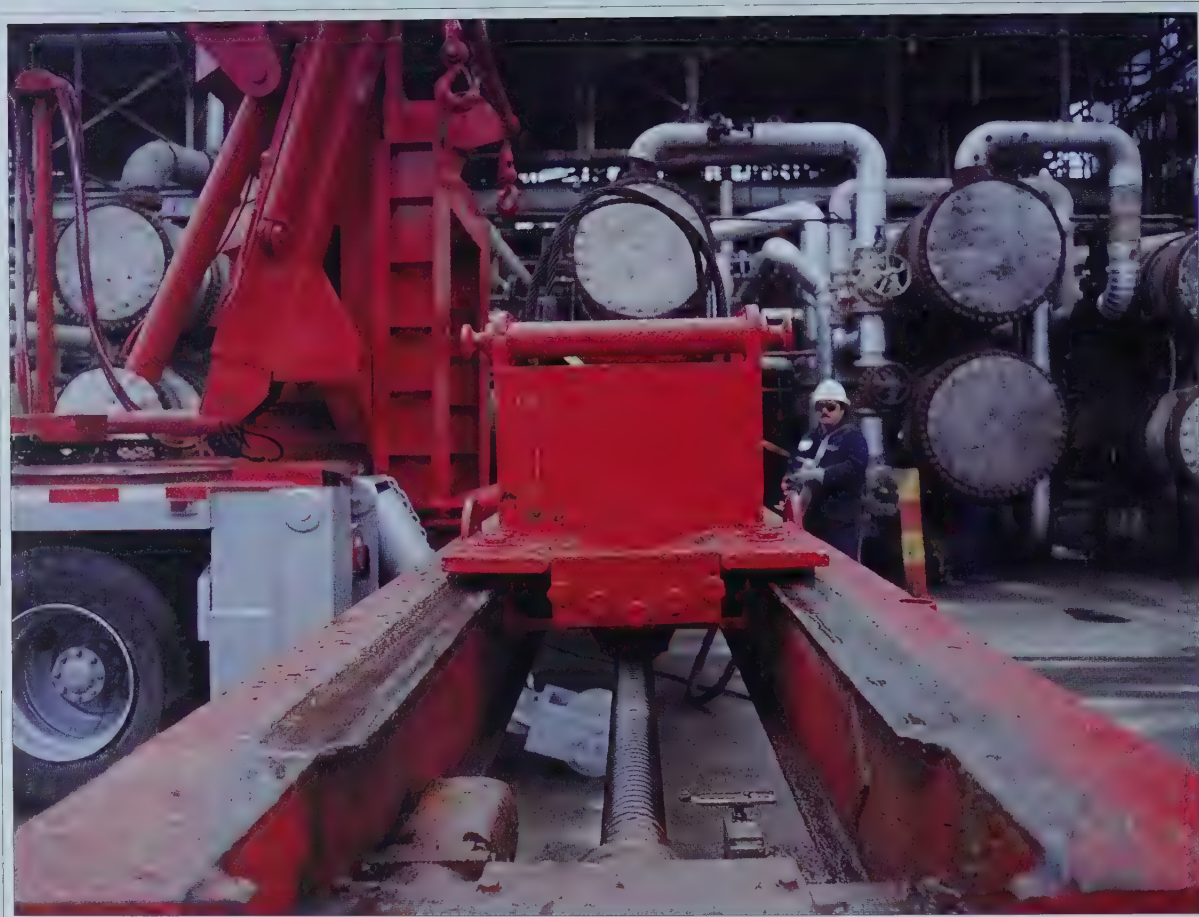
On-site Industrial Services: These services include industrial cleaning and maintenance services that are non-core to a clients operations, but essential to maintain operating efficiencies and environmental compliance, such as industrial cleaning and maintenance, waste collection and transportation, fabrication, outage, refractory and project management services. They also include turnaround services at refineries to clean heat exchanger bundles, boilers, vessels and other components of their operations that build up residues, which reduce operating efficiencies. Philip has developed technologies that significantly reduce downtime and safety risks associated with refinery turnarounds.

By-products Management: Philip processes a broad range of organic and inorganic by-products, converting waste into raw materials for reuse and reducing the cost and quantity of material destined for final disposal. The Company is a leading producer of engineered fuels for use in industrial furnaces, primarily cement kilns, and recycles paint overspray, solvents, resins and paints and other chemical by-products. By developing increasingly value-added applications for the materials it manages, Philip's strategy is to provide alternatives to conventional disposal.

Environmental Services: These include a broad range of remediation and environmental services, including strategic resource management, site remediation, decommission and investment recovery, environmental consulting and engineering and analytical and emergency response services. The competitive strength of these operations is their ability to provide integrated cost-competitive 'back end' solutions to problems identified through environmental consulting activities, or to support the Company's other service lines.

Utilities Management: Philip designs, builds and operates water and wastewater treatment facilities for its municipal and industrial clients.

To reinforce an integrated approach to the market, the Industrial Services Group created five regional groups covering all of North America. At the same time, the division consolidated services at its head office in Houston, Texas. The ISG also created a framework to guide its operations over the next few years. The goal is to be the premier North American provider of industrial services through continually improving on core competencies and operations; to become an information and knowledge based operation; and to improve profitability.



Hydroblasting packing materials from one of the distillation columns at Crown Refinery's Texas plant.

Turnarounds are a refinery's most costly maintenance operation. For almost a month, the refinery shuts down for regulatory inspection, repairs and upgrading which for Crown Refinery's in Pasadena, Texas, costs \$360,000 a day in lost production.

In September, Philip started a turnaround service at the refinery. It took 100,000 work-hours to complete the specialty welding, cleaning and repairs on heat exchangers and columns. Philip's patented FASTDRAW and FASTCLEAN hydroblasting system were key to the efficiency of the turnaround.

Expected to take 25 days to complete, the project was finished in just 18 days. As an incentive, workers shared in a bonus pool predicated first and foremost on meeting demanding safety criteria. Not only was completion ahead of schedule, Crown stated that it was the safest turnaround that they had ever had.



Carlton Coarmier, Plant Manager, Crown Central Petroleum Inc., Pasadena, TX and Mike Prevost, Turnaround Sales Manager, Philip.



L.J. Bradford and Ronny Hooper, Philip Equipment Operators, at the Crown Refinery in Pasadena, Texas.

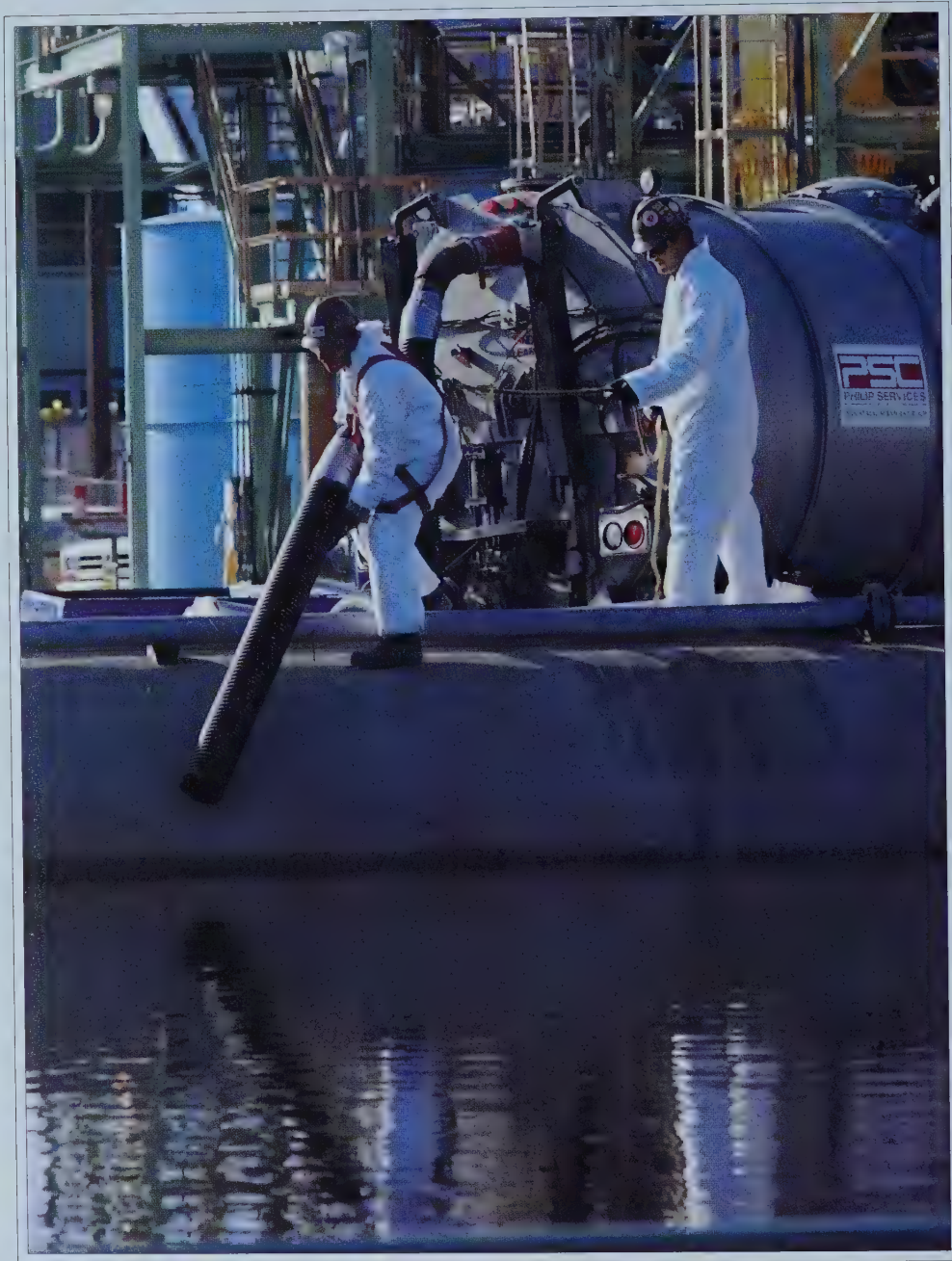
The FastClean system, operated by one technician and a helper, replaces up to eight conventional hydroblasters and twenty-four workers. The result is a substantial reduction in down time and workplace safety risks associated with scheduled maintenance projects.

Meeting the Market: The industrial services market, estimated to be worth \$50 billion annually, is expanding at approximately 10 percent a year. It is largely driven by outsourcing and vendor reduction, as industries increasingly focus on core business in order to channel resources effectively and access the expertise and technologies of outside service providers. By-product recovery in a chemical operation, turnaround services in refineries, and utility management in pulp and paper mills are typical non-core processes that are outsourced in order to improve profitability. Through the Industrial Services Group, Philip has created an integrated single source supplier of industrial services in a market which is still highly fragmented.

While virtually every manufacturing and industrial sector needs industrial services, ISG has identified key opportunities to grow its market share:

- **the design, construction and operation of infrastructure projects** – for example, the contract with Conoco for water and wastewater treatment is the largest industrial contract of its kind in North America.
- **chemical cleaning services** – a highly technical, value-added service that supplements ISG's largest service line, hydroblasting. Industrial cleaning is the cornerstone of the ISG's service base.
- **waste management** – encompassing both environmental management and by-product recovery, Philip's objective is to provide for the total on and off-site management of its clients' by-product streams to maximize recovery and reuse and reduce waste generation at the source.
- **industrial redevelopment** – through its alliance with Cushman & Wakefield and Royal LePage, Philip provides a total program of services to restore value to contaminated industrial properties. Philip provides comprehensive demolition, decommissioning and remediation services.

The Industrial Services Group has also identified emerging opportunities in specific industries such as electric power generation, pulp and paper manufacturing and gas pipelines, since outsourcing is still in its early stages in these sectors.

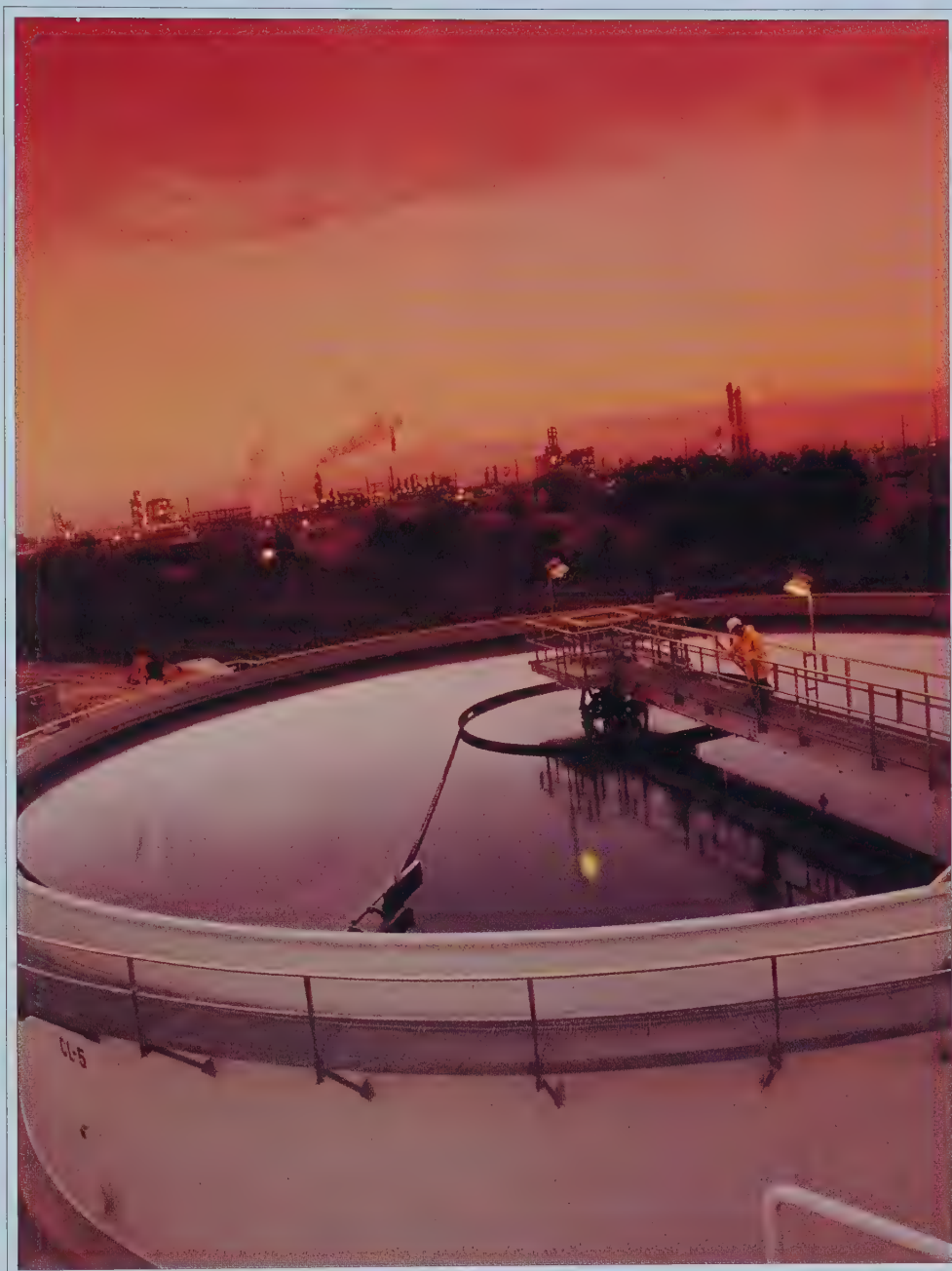


A Philip Services vacuum truck draining sediment from a containment area at PPG's Lake Charles, Louisiana chemical plant.

'Big Blue', a storage tank at PPG's Lake Charles chemical complex required cleaning to remove solidified hydrated silica which had accumulated inside the tank. Supported by Philip's industrial service capabilities, the project was completed ahead of schedule with no production delays.

The PPG Lake Charles chemical complex produces chlorine, caustic soda and vinyl chloride. For the past six years, Philip employees have also been integrated into these operations, providing hydroblasting, chemical cleaning and solvent reclamation services.

In a new venture between the two companies, Philip is working with PPG to develop recycling and reuse alternatives for PPG's largest by-product streams. The successful partnership between the two companies is based on realizing operating efficiencies and environmental excellence.



A wastewater treatment clarifier at Conoco's Westlake, Louisiana refinery, operated by Philip Services.
In December, Conoco awarded Philip the largest industrial water production and wastewater treatment contract in North America. This 30-year agreement is facilitated through HydroServ, Westlake LLC, which is jointly owned by Philip Services and Conoco. HydroServ has acquired all major secondary water and wastewater treatment facility assets from the refinery.



Randy Jones, Area C Supervisor, Conoco Inc., Westlake, Louisiana facility. Jill Achee, Philip Project Manager for Hydrosolve, Westlake, joint venture.



Jeff Young, Philip Corporate Accounts Manager and Gerald Perry, Senior Environmental Control Specialist at PPG's Lake Charles, Louisiana chemical plant.

Cross-selling with the Metals Services Group is also being accelerated. The Metals Services Group supplies services to virtually every major steel mill in North America. For the ISG, the opportunity to expand industrial services, such as wastewater treatment, industrial cleaning and refractory work, is significant considering that less than five percent of its revenue is generated in the steel industry. Cross-selling these services will be facilitated through our Industrial Metals Services operations, which provide the bridge between the Company's two operating groups.

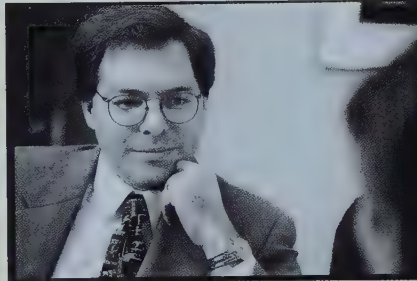
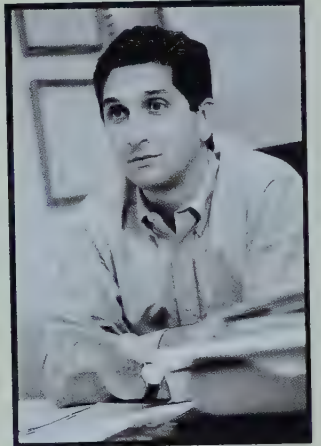
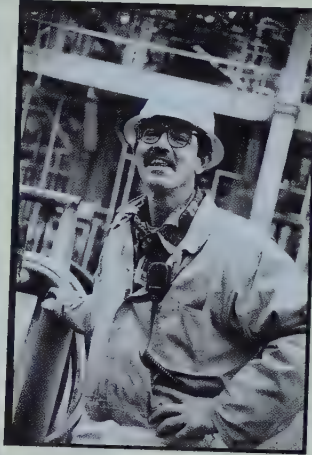
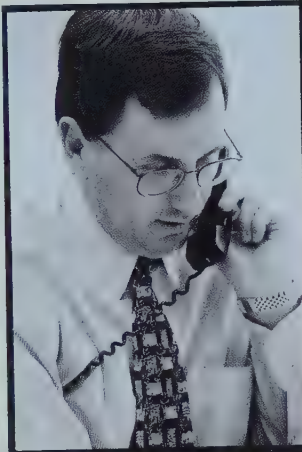
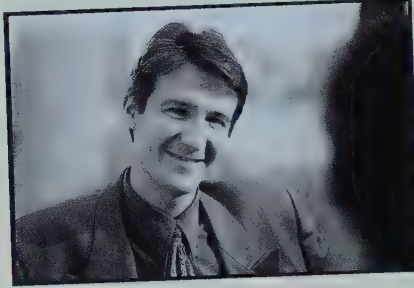
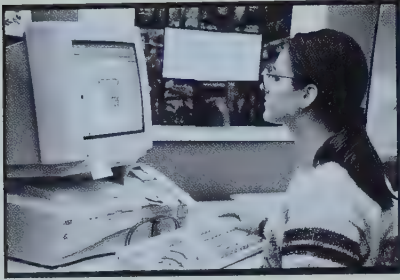
Comprehensive Services and a European Base: ISG's broad base of industrial services creates both opportunities and added value. Philip's patented EPOC system, for example, improves the efficiency of industrial paint booths and recovers paint overspray. Caligo, a former Allwaste operation, provides cleaning services for paint facilities. Together, Philip now provides a comprehensive service both "above and below the grate" for all types of industrial paint facilities.

Similarly, the recent alliance with Royal LePage and Cushman & Wakefield to rehabilitate abandoned industrial land was only possible due to ISG's range of services; from demolition and decommissioning to remediation and investment recovery, supplied by a single-source provider.

Philip has also established itself in the European industrial services market, supported by facilities in the Netherlands, Portugal, Spain, Germany and Austria. Services include industrial cleaning, industrial vacuum and high pressure wash, tank cleaning, refinery turnarounds, automotive services including paint booth cleaning and overspray recovery and specialty chemicals. The Company has also transferred specialized technologies from its North American operations, including FastClean, FastDraw and LifeGuard, that are being used to service the heavy concentration of petrochemical companies and refineries in northern Europe. With these technologies, Philip can substantially reduce the downtime and costs associated with scheduled maintenance, or turnaround projects, that require plant shut downs. Philip's objective in Europe is to draw from its expertise and industry relationships developed in North America to strategically grow its European operations.

The following table outlines certain of the Company's proprietary technologies.

Technology	Application	Competitive Advantage	Industry Served
Fast Draw	Remote control extraction of heat exchanger bundles	Reduced turnaround time and labor; Enhanced safety	Petrochemical; Hydrocarbon processing
Fast Clean	Semi-robotic cleaning of heat exchanger bundles	Reduced turnaround time and labor; Enhanced safety	Petrochemical; Hydrocarbon processing
Life Guard	Decontamination of hydrocarbons in refinery towers and vessels	Elimination of personnel safety risks; Improved heat transfer performance	Petrochemical; Hydrocarbon processing
WeldSmart	Welding; Heat treatment	Reduces energy consumption and increases productivity	All welding applications
EPOC	Paint overspray capture and recovery	Reduces paint usage and eliminates landfilling of paint sludge	Automotive; Equipment manufacturers
Super Blender	Processing of solid and liquid by-products into engineered fuels	Reduces disposal costs and eliminates landfilling	Petrochemical; Paint; Automotive; Cement
Fuel Smart	Computer based method to regulate industrial furnaces	Optimizes combustion; Minimizes the formation of pollutants; regulates furnace temperatures	All industrial furnaces
Calcium Aluminate Recovery	Processes aluminum dross residuals for reuse	Eliminates landfilling; Raw material for steel manufacturing	Aluminum; Steel
Electric Arc Furnace ("EAF") Dust Recycling	Thermal treatment of EAF to produce zinc concentrate	Eliminates landfilling and reduces disposal costs	Steel
Rigid Polyurethane Recycling	Thermal/chemical processing of rigid polyurethane automotive parts into virgin polyols	Eliminate landfilling; Supports "recyclable car" objective of automotive manufacturers	Automotive; Polyurethane applications



SELECTED FINANCIAL INFORMATION

The Selected Financial Information included on pages 33 to 35 of the annual report, has been extracted from the Company's audited consolidated balance sheets at December 31, 1997 and 1996 and the related audited consolidated statements of earnings, retained earnings or deficit, and cash flows for each of the years in the three year period ended December 31, 1997. The Selected Financial Information should be read in conjunction with the audited consolidated financial statements of the Company and "Management's Discussion and Analysis of Financial Condition and Results of Operations" all as disclosed on Form 10-K/A for the fiscal year ended December 31 1997, filed by the Company with the United States Securities and Exchange Commission on May 15, 1998.

CONSOLIDATED BALANCE SHEETS

	December 31	
<i>(in thousands of US dollars)</i>	1997 (Restated)	1996 (Restated)
ASSETS		
Current assets		
Cash and equivalents	\$ 48,809	\$ 6,044
Accounts receivable	535,052	173,021
Inventory for resale	223,613	172,280
Other current assets	66,898	44,690
	874,372	396,035
Fixed assets	605,710	254,087
Goodwill	1,089,649	235,622
Deferred income taxes	86,468	12,225
Other assets	167,174	55,792
	\$ 2,823,373	\$ 953,761
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 271,726	\$ 189,846
Accrued liabilities	190,741	46,907
Current maturities of long-term debt and loans from related parties	47,166	19,956
	509,633	256,709
Long-term debt	966,995	282,825
Other liabilities	129,804	35,217
Shareholders' equity	1,216,941	379,010
	\$ 2,823,373	\$ 953,761

CONSOLIDATED STATEMENTS OF EARNINGS

	<i>Years Ended December 31</i>		
	1997 (Restated)	1996 (Restated)	1995 (Restated)
<i>(in thousands of US dollars except share and per share amounts)</i>			
Revenue	\$ 1,750,930	\$ 532,344	\$ 463,244
Operating expenses	1,551,495	413,013	356,699
Special charges	155,720	65,056	27,179
Selling, general and administrative costs	130,778	56,063	48,496
Depreciation and amortization	61,953	24,225	18,587
Income (loss) from operations	(149,016)	(26,013)	12,283
Interest expense	47,310	16,263	18,621
Other income and expense - net	(14,328)	(3,456)	(2,688)
Earnings (loss) from continuing operations before tax	(181,998)	(38,820)	(3,650)
Income taxes	(55,731)	(19,563)	(4,790)
Earnings (loss) from continuing operations	(126,267)	(19,257)	1,140
Discontinued operations (net of tax)	—	(716)	2,109
Net earnings (loss)	\$ (126,267)	\$ (19,973)	\$ 3,249
Basic earnings per share			
Continuing operations	\$ (1.43)	\$ (0.39)	\$ 0.03
Discontinued operations	—	(0.01)	0.06
	\$ (1.43)	\$ (0.40)	\$ 0.09
Diluted earnings per share			
Continuing operations	\$ (1.43)	\$ (0.39)	\$ 0.03
Discontinued operations	—	(0.01)	0.05
	\$ (1.43)	\$ (0.40)	\$ 0.08
Weighted average number of common shares outstanding (000's)	88,191	50,073	37,342

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

	<i>Years Ended December 31</i>		
	1997 (Restated)	1996 (Restated)	1995 (Restated)
<i>(in thousands of US dollars)</i>			
Balance, beginning of year	\$ 39,993	\$ 59,966	\$ 56,717
Net earnings (loss)	(126,267)	(19,973)	3,249
Balance, end of year	\$ (86,274)	\$ 39,993	\$ 59,966

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31

<i>(in thousands of US dollars)</i>	1997 (Restated)	1996 (Restated)	1995 (Restated)
Operating Activities			
Net earning (loss) from continuing operations	\$ (126,267)	\$(19,257)	\$ 1,140
Items included in earnings not affecting cash			
Depreciation and amortization	47,348	18,630	13,449
Amortization of goodwill	14,605	5,595	5,138
Deferred income taxes	(28,942)	(15,315)	(2,467)
Net gain on sale of assets	(2,559)	(1,645)	(885)
Special charges (net of tax)	117,081	–	–
Cash flow from continuing operations	21,266	(11,992)	16,375
Changes in non-cash working capital	(201,169)	(35,139)	(850)
Cash provided by (used in) continuing operating activities	(179,903)	(47,131)	15,525
Cash provided by discontinued operating activities	–	21,161	11,012
Cash provided by (used in) operating activities	(179,903)	(25,970)	26,537
Investing Activities			
Proceeds from sale of solid waste operations	19,800	137,632	–
Acquisitions – including acquired cash (bank indebtedness)	(596,574)	(111,437)	(2,832)
Purchase of fixed assets	(62,391)	(30,004)	(23,347)
Other – net	3,965	(32,509)	(22,441)
Cash used in continuing investing activities	(635,200)	(36,318)	(48,620)
Cash used in investing activities of discontinued operations	–	(12,703)	(11,102)
Cash used in investing activities	(635,200)	(49,021)	(59,722)
Financing Activities			
Proceeds from long-term debt	1,778,880	216,398	32,484
Principal payments on long-term debt	(1,301,249)	(187,841)	(8,690)
Common shares issued for cash	380,237	61,787	138
Cash provided by continuing financing activities	857,868	90,344	23,932
Cash used in financing activities of discontinued operations	–	(9,309)	(2,036)
Cash provided by financing activities	857,868	81,035	21,896
Net change in cash for the year	42,765	6,044	(11,289)
Cash position, beginning of year	6,044	–	11,289
Cash position, end of year	\$ 48,809	\$ 6,044	\$ –

CORPORATE INFORMATION

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Fax: (905) 521-9160

Attention: Investor Relations

Toll free investor information fax-back service:

1-800-617-3844

Internet Site:

www.philipinc.com

SHARE LISTING:

The Common Shares of the Company are listed for trading on the New York Stock Exchange, The Toronto Stock Exchange, and the Montreal Exchange under the symbol "PHV".

TRANSFER AGENTS FOR COMMON SHARES

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Toronto, Ontario
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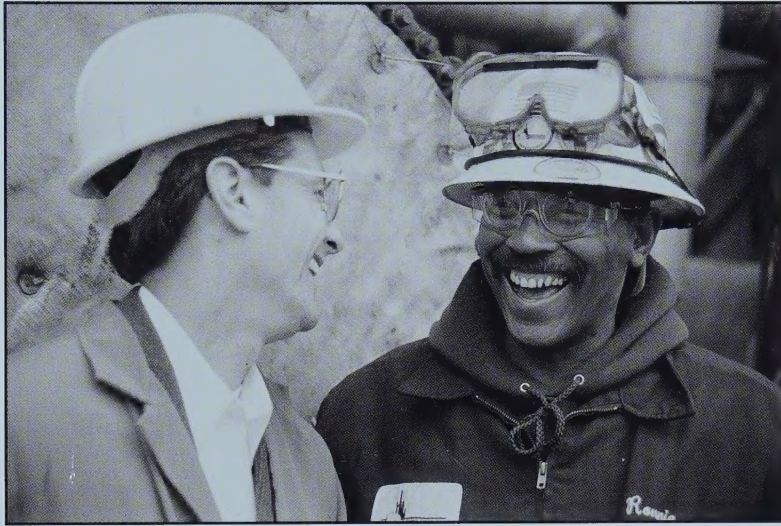
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Meagher & Flom LLP
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New York, NY
10022-3897

AUDITORS

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Suite 1100
Mississauga, Ontario
L5B 1M2

ANNUAL MEETING

Shareholders are invited to attend the Annual Meeting to be held on Thursday, June 25, 1998 at 10:00 am at the Hilton Hotel, 145 Richmond Street West, Toronto, Ontario M5H 2L2.



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